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ARIZONA DEPARTMENT OF REVENUE

MISSION STATEMENT

The purpose of the Arizona Department of Revenue is to promote voluntary compliance with all tax obligations through fair administration, firm enforcement, and prompt and courteous service in a manner that justifies the highest degree of public confidence in our efficiency and integrity.

WE'RE ON THE WEB!

The Arizona TaxNews can be viewed on our Internet website:

www.revenue.state.az.us

RECENT ARIZONA TAX LAW CHANGES

The Arizona legislature passed and Governor Napolitano has signed the annual Internal Revenue code conformity bill (SB 1389) which makes changes affecting tax years beginning from and after December 31, 1999. Arizona conforms but makes specific additions and subtractions that have the effect of not conforming to the increased IRC Section 179 expense limitation and the 30% and 50% bonus depreciation provisions of IRC Section 168(k).

Check the website for the revised forms and instructions.

The text of the bill that made these changes can be found at www.azleg.state.az.us/FormatDocument.asp?inDoc=/legtext/46leg/2r/laws/0196.htm

Affecting Individuals

- Specifically, for § 179 expenses, there is an addition for any amount claimed on the federal return in excess of \$25,000 and a subtraction to be taken in the year of the expense and each of four succeeding years equal to 20% of that addition.
- The bonus depreciation is handled via an addition equal to all depreciation expense claimed on the federal return and a subtraction equal to the amount of depreciation calculated as if bonus depreciation had not been elected for federal purposes.
- There is also now a subtraction available in the year of disposition of an asset for any difference between federal basis and Arizona basis due to the difference in bonus depreciation treatment.
- The retroactive recognition of the change in depreciation methods (and the basis difference in case of disposition) is to be handled in one of two ways at the election of the taxpayer:
 - recognize the entire cumulative effect of the retroactive change of depreciation methods on the tax return for the first tax year ending on or after December 31, 2003. To qualify for this election, all returns prepared pursuant

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ONLINE SERVICES UPDATE

Withholding Taxes can now be filed on the department's e-file website for filing and paying TPT and Withholding Taxes and for business registration:

www.AZTaxes.gov. This new feature was added at the end of April and there have been over 100 A1-QRT's filed to date. Another new feature that has just been added is a payment history page. This page will display all of the payments made through the website by

tax type. Also included are confirmation numbers and the dates that the payments were processed. Payment history is only available for payments made through the website. The history can be accessed using the History tab from the Options menu, just after login. Popularity of the site continues to grow as these new functions are added. So far, there are over 4800 registered users on the site with more than 40 new users added daily.

*****REMINDER*****

FOR NON-EFT TPT FILERS

**To avoid a delinquency, postmark your
May 2004 TPT return no later than
June 25, 2004 or deliver to DOR no later
than June 29, 2004.**

The Tax Facts—Summary of General Fund
Revenues & Individual Income Tax Receipts—
are available on the department's website,
www.revenue.state.az.us

E-Mail Your Questions

If you have a question that you cannot find the
answer to, our Technical Assistance personnel may
prove useful to you. We will gladly respond to any
e-mail technical tax inquiry. All inquiries will be
responded to within two working days.

E-mail your question to:

TaxpayerAssistance@revenue.state.az.us

In the interest of maintaining confidentiality, DOR
cannot respond to inquiries that include a Social
Security number, FEIN, TPT or W/H number, or
other specific taxpayer identifiers.

Department of Revenue Telephone Numbers & Web addresses

Individual & Corporate Income Tax

..... (602) 255-3381

Toll-free from

area codes 520 and 928..... (800) 352-4090

Transaction Privilege, Use, Withholding Tax, Licensing..... (602) 255-2060

Toll-free from

area codes 520 and 928..... (800) 843-7196

Hearing Impaired TDD User .. (602) 542-4021

Toll-free from

area codes 520 and 928..... (800) 397-0256

To order forms by phone (602) 542-4260

Forms by fax (602) 542-3756

**Forms and instructions are also available
on our website at** www.revenue.state.az.us

**Businesses can now register, file and pay
online at** www.AZTaxes.gov

TAX CALENDAR

JUNE 2004

Due Date		For Period Ending
15	Income Tax Returns:	2/29/04
	Form 120: Corporation	
	Form 140: Individual	
	Form 141: Fiduciary	
	Form 165: Partnership	
15	Form 120: Corporation with Automatic Extension	8/31/03
15	Form 120S: S Corporation	3/31/04
15	Form 99: Exempt Organization Annual Information Return	
	Form 99T: Exempt Organization	1/31/04
15	Form 120ES: Estimated Tax Payment, Corporation	
	First Installment	2/28/05
	Second Installment	12/31/04
	Third Installment	9/30/04
	Fourth Installment	6/30/04
21	Form TPT-1: Transaction Privilege Tax:	
	May Monthly Filers	5/31/04
21	Bingo: Financial Reports	5/31/04
21	Luxury Tax: Various Forms	5/31/04
25	EFT Form TPT-1 and Payment:	
	Transaction Privilege Tax:	
	May Monthly Filers	5/31/04

Withholding Tax Payment Information:

If the average amount of Arizona income taxes withheld in the
preceding four calendar quarters **exceeds** \$1,500 the employer must
make its Arizona withholding payments to the Department of
Revenue at the same time as the employer is required to make
federal withholding deposits.

If the average amount of Arizona income taxes withheld in the
preceding four calendar quarters **does not exceed** \$1,500 the
employer must make its Arizona withholding payments to the
department on a quarterly basis.

The *Arizona TaxNews* is a publication of the Arizona Department
of Revenue. Information contained herein is of a general nature
and is not designed to address complex issues in detail.
Taxpayers requiring information concerning a specific tax matter
should contact the appropriate office. This newsletter is available
in an alternative format upon request. Subscription information
may be obtained from the Publications Unit at 602-716-6797 or
toll free from area codes 520 & 928, 1-877-863-0655.

CHANGE IN CITY TAX CODE—CITY OF COOLIDGE

EFFECTIVE AUGUST 1, 2004

Effective August 1, 2004: On May 24, 2004 the Mayor and City Council of the City of Coolidge passed ordinance number 04-04. Ordinance 04-04 increases the Coolidge City Privilege Tax from **2% to 3%**. The tax rate increase affects the following classifications:

Advertising; Amusements; Construction Contracting; Feed at Wholesale; Job printing; Manufactured buildings; Timbering and other extraction; Publishing; Rental Occupancy;

Hotels; Rental of real property; Rental of tangible personal property; Retail sales; Restaurants and Bars; Telecommunications; Transporting for hire; Utilities and Use Tax.

The increase imposed by this ordinance shall not apply to contracts entered into prior to the effective date of the ordinance. Pre-existing contracts should be reported using **CL009** at a rate of **2%**.

CHANGE IN CITY TAX CODE—CITY OF DOUGLAS

EFFECTIVE AUGUST 1, 2004

Effective August 1, 2004: On May 14, 2004 the Mayor and City Council of the City of Douglas passed ordinance number 04-861. Ordinance 04-861 adopted Local Option V which modifies Section 9A-460-Retail Sales, of the City Tax Code. Option V, imposes a two-tier tax on retail sales for single items with a cost of \$10,000 or more.

If a **single item** is sold at a cost of **\$10,000** or more, the privilege tax, under the retail tax classification will be taxed at a rate of **1.50%**. This will be reported under **Code DL003**.

CHANGE IN CITY TAX CODE—CITY OF ST. JOHNS

EFFECTIVE AUGUST 1, 2004

Effective August 1, 2004: On May 13, 2004 the Mayor and City Council of St. Johns passed ordinance number 103. Ordinance 103 establishes an **Additional Tax on Transient Lodging at 1%**. The Additional Tax on Transient Lodging shall be reported using **Code SJ003**.

The total city rate for transient lodging is **3%**, **2%** which is reported using code **SJ000** and **1%** which is reported using code **SJ003**.

IRS CONTINUES LAUNCH OF ONLINE BUSINESS TOOLS

IR-2004-58, April 26, 2004

WASHINGTON - With record numbers of Americans e-filing their tax returns and recently announced e-filing options for corporations and tax exempt organizations, the Internal Revenue Service has launched a new online form that gives tax professionals a faster, easier method of applying to become an authorized e-filer.

As more and more taxpayers ask for e-file, tax professionals now have an online application form that cuts processing time and reduces errors associated with using the paper Form 8633, Application to Participate in IRS e-file. Once the application is approved by the IRS, tax professionals can e-file returns for their clients.

"With record numbers of Americans filing electronically, this process makes it even easier for tax professionals to become an authorized e-filer," said IRS Commissioner Mark W. Everson. "This new online form provides a faster, smoother process for tax professionals to become e-filers."

The online application is the latest segment of a suite of Internet-based business tools called "e-services" that give tax professionals and financial institutions new choices for working electronically with the IRS and easier access to client information.

The online application form joins four other products in the e-services line that serves tax professionals and those who file select information returns, such as banks and other financial institutions. The suite of e-services were developed and delivered through the IRS Business Systems Modernization program.

The e-service announced today joins four other applications already released, including:

- **Online Registration** - Before using other e-services, tax professionals must register online to create an electronic account. The registration process is a one-time process for tax professionals to select a user name, password and personal identification number.
- **Preparer Tax Identification Number Application** - The Preparer Tax Identification Number, or PTIN application, lets a paid preparer apply for and receive a PTIN immediately over the Internet.
- **Bulk Taxpayer Identification Number Matching** - Bulk TIN Matching is used by authorized payers or their agents who file the range of 1099 forms to match the taxpayer identification numbers with the names of those they pay. Payers can face a penalty

if an incorrect number is submitted to the IRS. Up to 100,000 name/TIN combinations can be submitted for matching with a response received within 24 hours.

- **Interactive Taxpayer Identification Number Matching** - A smaller version of the bulk TIN matching application that authorized payers can use to match up to 25 taxpayer identification numbers and name combinations against IRS records with an immediate response.

Future e-services include premium products for e-filers who file more than 100 electronic returns, and include:

- **Disclosure Authorization** - Eligible tax professionals can complete, view and update authorization forms, receive acknowledgement of accepted submissions immediately - all online. This electronic submission of Form 2848, Power of Attorney and Declaration of Representative, and Form 8821, Tax Information Authorization, speeds processing and provides immediate feedback about accepted submissions.
- **Electronic Account Resolution** - Tax professionals can resolve their client's account problems sooner by electronically sending/receiving account related inquiries. Tax professionals can ask about individual or business account problems, refunds, installment agreements, missing payments or notices. IRS responses are delivered to an electronic secure mailbox within 72 hours.
- **Transcript Delivery System** - Tax professionals can request their client's tax return transcripts, account transcripts, wage and income documents and verification of non-filing letters for individual and business taxpayers. Account information is provided quickly in a secure, online session or can be delivered to a secure mailbox within 24-48 hours. All of these premium e-services are being tested now by a select group of registered users. Disclosure Authorization and Electronic Account Resolution are scheduled for delivery this spring; Transcript Delivery System is due for release this summer.

Only approved IRS business partners, such as e-filing tax professionals and payers are eligible to use e-services. Tax professionals and payers can register for e-services immediately through the Tax Professional's page on IRS.gov.

Recent Arizona Law Changes

(Continued from page 1)

to the prior law must be filed by the due dates for those returns, including extensions, or April 15, 2004, whichever is later.

– or –

- 2) amend each of the affected returns individually.
- The statute of limitations is suspended to allow taxpayers to claim refunds resulting from retroactive conformity to the provisions of the Military Family Tax Relief Act of 2003. A taxpayer that was able to file an amended federal income tax return to exclude the gain on the sale of a home because of changes to federal law under the Military Family Tax Relief Act of 2003, may also file an amended Arizona return to exclude that gain. If the amended return is for a tax year prior to 2000, you have until November 10, 2004 to file that return. When filing an amended return under this provision, write “Military Family Tax Relief Act” in red at the top of Form 140X.

FORMS 140A and 140EZ

- Not affected

FORM 140

- Put the addition for § 179 expenses in excess of \$25,000 on line B11 and the subtraction for the recovery on line C28.
- Put the addition for 100% of the federal depreciation claimed on line B9 and the subtraction for the recalculated Arizona depreciation on line C23.
- Put the basis adjustment in the year of disposition on line C28.
- If the taxpayer elects to recognize the entire cumulative effect on the 2003 return, put the net adjustment on line B12 or line C28 as appropriate.

FORM 140NR

- Put the addition for § 179 expenses in excess of \$25,000 on line C19 and the subtraction for the recovery on line D30.
- Put the addition for 100% of the federal depreciation claimed on line C18 and the subtraction for the recalculated Arizona depreciation on line D30.
- Put the basis adjustment in the year of disposition on line D30.
- If the taxpayer elects to recognize the entire cumulative effect on the 2003 return, put the net adjustment on line C19 or line D30 as appropriate.

FORM 140PY

- Put the addition for § 179 expenses in excess of

\$25,000 on line C23 and the subtraction for the recovery on line D35.

- Put the addition for 100% of the federal depreciation claimed on line C22 and the subtraction for the recalculated Arizona depreciation on line D35.
- Put the basis adjustment in the year of disposition on line D35. If the taxpayer elects to recognize the entire cumulative effect on the 2003 return, put the net adjustment on line C23 or line D35 as appropriate.

FORM 140X

If the taxpayer has already filed the 2003 return or elects to amend each affected year separately to effect these changes, put the adjustment(s) on line 19 or line 21 as appropriate and include explanations of the changes in PART III.

Affecting Partnerships

- Specifically, for § 179 expenses, there is an addition for any amount claimed on the federal return in excess of \$25,000 and a subtraction to be taken in the year of the expense and each of four succeeding years equal to 20% of that addition. *(This does not apply to partnerships since the § 179 expense is handled on Schedule K; however, it does require a change to the 2003 partnership return.)*
- The bonus depreciation is handled via an addition equal to all depreciation expense claimed on the federal return and a subtraction equal to the amount of depreciation calculated as if bonus depreciation had not been elected for federal purposes.
- There is also now a subtraction available in the year of disposition of an asset for any difference between federal basis and Arizona basis.
- The retroactive recognition of the change in depreciation methods (and the basis difference in case of disposition) is to be handled in one of two ways at the election of the taxpayer:
 - 1) recognize the entire cumulative effect of the retroactive change of depreciation methods on the tax return for the first tax year ending on or after December 31, 2003. To qualify for this election, all returns prepared pursuant to the prior law must be filed by the due dates for those returns, including extensions, or April 15, 2004, whichever is later.

– or –

- 2) amend each of the affected returns individually.

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Recent Arizona Law Changes

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FORM 165

- Put the addition for 100% of the federal depreciation claimed on line A1 and the subtraction for the recalculated Arizona depreciation on line B1.
- Put the basis adjustment in the year of disposition on line B2.
- If the taxpayer elects to recognize the entire cumulative effect on the 2003 return, put the net adjustment on line A5 or line B3 as appropriate.

Affecting Corporations

- Specifically, for § 179 expenses, there is an addition for any amount claimed on the federal return in excess of \$25,000 and a subtraction to be taken in the year of the expense and each of four succeeding years equal to 20% of that addition.
- The bonus depreciation is handled via an addition equal to all depreciation expense claimed on the federal return and a subtraction equal to the amount of depreciation calculated as if bonus depreciation had not been elected for federal purposes.
- There is also now a subtraction available in the year of disposition of an asset for any difference between federal basis and Arizona basis.
- The retroactive recognition of the change in depreciation methods (and the basis difference in case of disposition) is to be handled in one of two ways at the election of the taxpayer:
 - 1) recognize the entire cumulative effect of the retroactive change of depreciation methods on the tax return for the first tax year ending on or after December 31, 2003. To qualify for this election, all returns prepared pursuant to the prior law must be filed by the due dates for those returns, including extensions, or April 15, 2004, whichever is later.

– or –

- 2) amend each of the affected returns individually.

FORM 120/120A

- Put the addition for § 179 expenses in excess of \$25,000 on line A2 and the subtraction for the recovery on line B3.

- Put the addition for 100% of the federal depreciation claimed on line A1 and the subtraction for the recalculated Arizona depreciation on line B1.
- Put the basis adjustment in the year of disposition on line B2.
- If the taxpayer elects to recognize the entire cumulative effect on the 2003 return, put the net adjustment on line A12 or line B12 as appropriate.

FORM 120X

If the taxpayer has already filed the 2003 return or elects to amend each affected year separately to effect these changes, put the adjustment(s) on line 2 or line 4 as appropriate and include explanations of the changes in Schedule E.

FORM 120S

No adjustments are necessary at the corporation level for either Section 179 expense or bonus depreciation. There is no separate calculation of Section 179 expense for Arizona, so the section of the instructions titled “S Corporation Instructions for Arizona Nonconformity to IRC § 179 as Amended by PL 108-27” on page 10 is no longer valid and should be disregarded. Corrected Forms 120S Schedule K-1 (NR) should be issued to any non-resident shareholders who had §179 expense differences already reported to them (affects lines 8 and 10), and resident shareholders should be issued a revised statement of the IRC § 179 expenses and related depreciation adjustment.

FORM 99/Form 99T

No effect.

Affecting Estates and Trusts

- The bonus depreciation is handled via an addition equal to all depreciation expense claimed on the federal return and a subtraction equal to the amount of depreciation calculated as if bonus depreciation had not been elected for federal purposes.
- There is also now a subtraction available in the year of disposition of an asset for any difference between federal basis and Arizona basis due to the difference in bonus depreciation treatment.

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TIPS TO HELP YOU FILE YOUR TPT-1

We would like to help you correctly complete the new TPT-1s to minimize errors that may lead to unnecessary billings. We have seen a repeated error on Line 3 that you can prevent or correct as follows.

Many filers are putting the amount of tax due on Part III, line 2 **and** line 3. Line 2 is the total tax due as calculated in column H from all of the pages of the return. Line 3 is the amount of **Excess Tax** and is added to line 2 to begin the calculation of the amount of tax to remit. Excess tax is tax that is collected that exceeds that amount calculated as due. This excess amount must be reported and remitted with your return. Many are putting the amount of tax from column H on both lines 2 and 3. This is causing the amount of tax due to double because line 2 and 3

are added together as part of the math check during processing. **Use line 3 for Excess Tax only.**

The other error is that taxpayers are putting nothing on Line 2 and putting the calculated tax on Line 3. Because the information contained in Part II, transaction detail, is keyed as part of the processing of the return, the processing system is filling in line 2 with the tax calculated from the keyed transaction details. This creates the same result as the paragraph above: double reporting of the tax due.

Please be careful completing the return and use the lines on the return as noted above. This will insure that your return is processed properly and unnecessary billings are avoided.

Recent Arizona Law Changes

(Continued from page 6)

- The retroactive recognition of the change in depreciation methods (and the basis difference in case of disposition) is to be handled in one of two ways at the election of the taxpayer:
 - 1) recognize the entire cumulative effect of the retroactive change of depreciation methods on the tax return for the first tax year ending on or after December 31, 2003. To qualify for this election, all returns prepared pursuant to the prior law must be filed by the due dates for those returns, including extensions, or April 15, 2004, whichever is later.
- or –
- 2) amend each of the affected returns individually.

FORM 141AZ

- Put the addition for 100% of the federal depreciation claimed on line B3 and the subtraction for the recalculated Arizona depreciation on line B8.
- Put the basis adjustment in the year of disposition on line B8.
- If the taxpayer elects to recognize the entire cumulative effect on the 2003 return, put the net adjustment on line B3 or line B8 as appropriate.

Amended Form 141

If the taxpayer has already filed the 2003 return or elects to amend each affected year separately to effect these changes, put the adjustment(s) on either the other additions to federal taxable income line (for 2002, line 8f and for 2000 and 2001, line 8e) or the other subtractions from federal taxable income line (for 2002, line 11f and for 2000 and 2001, line 11e) as appropriate and include an explanation with the amended return.



TPT-ES REMINDER

Annual estimated payments of the transaction privilege, telecommunication services excise and county excise taxes are required, if a taxpayer's actual combined tax liability for the transaction privilege, telecommunication services excise and county excise taxes in the preceding calendar year was \$100,000 or more, or if the taxpayer can reasonably anticipate a liability for such taxes of \$100,000 or more in the current year. For purposes of the annual estimated tax payment, "taxpayer" is defined as the business entity under which the business reports and pays state income taxes, regardless of the number of business locations collecting the transaction privilege, telecommunication services excise and county excise taxes.

The amount of payment required is either the actual Transaction Privilege Tax liability for the first 15 days of June 2004 or one-half of the actual Transaction Privilege Tax liability for May 2004.

For those taxpayers required or electing to pay in immediately available monies (EFT), the due date is June 25. The payment is delinquent if not transferred by that day. For all others, the due date is June 21 since June 20 is a Sunday. The payment must be postmarked by the June 21 or received in the Department by June 29, the business day preceding the last business day of June.